

## BRIEFING NOTE

August 2022

**Tom Marshall**

Tel. +44 (0)20 3486 3702  
tmarshall@geraldeve.com

**Rosanna Cole**

Tel. +44 (0)20 3486 3667  
rcole@geraldeve.com

**James Wickham**

Tel. +44 (0)20 7333 6353  
jwickham@geraldeve.com

**Liam Lawson Jones**

Tel. +44 (0)20 3486 3605  
llawsonjones@geraldeve.com

## CARBON OFFSET CONTRIBUTION – LONDON BENCHMARK



Low carbon and energy efficient design now forms a key consideration in the design and planning of major developments. It is essential that associated carbon offsetting costs are taken into account from the start of a project and included in the cost of complying with the requirements of building regulations and planning policy.

We have produced this unique research note which considers the impact of carbon offset contributions from operational emissions on development project feasibility by benchmarking the carbon offset costs of a selection of medium and large-scale London developments. This is based on the London Plan, although it will have relevance for any new development, and it will be useful for local authorities, developers, investors and valuers.

Our research has found that when assessed against the Part L 2013 baseline, carbon offset contributions for operational emissions can range from **£15psm and £25psm on proposed GIA, considerably impacting scheme feasibility.** It is worth noting that the London Plan (2021) is adopting the updated figure **Part L 2021 baseline**, which may increase offset costs further given the change to the baseline. Embodied energy will also be more carefully considered through whole life-cycle carbon assessments.

We are aware others are benchmarking estimated carbon offset costs as a percentage of build costs (between 1-1.5%) and will continue to monitor and review this position.



### THE LONDON PLAN (2021) – NET ZERO

Under the London Plan, a minimum on-site carbon reduction of at least 35% beyond Part L of the Building Regulations is sought (Policy SI 2 ‘Minimising Greenhouse Gas Emissions’) with a target of “net zero”. Where proposed developments cannot meet net zero on site, a carbon offsetting contribution is required for any shortfall in reaching net zero; this is charged at £95 per tonne under the London Plan which goes to the Local Planning Authority’s carbon offset fund. These carbon offset contributions are secured through a Section 106 Agreement, sitting alongside the planning permission. Until very recently, the performance of the building has been assessed against 2013 Part L, although has now shifted to 2021 Part L.

Our experience, thus far, has been that these contributions can represent significant financial commitments, yet they are generally not included at feasibility stage. The reasoning behind this is typically the unknown value to be attributed, before receiving estimates from energy consultants, as they require a detailed energy model to be developed accurately at later detailed design stage. Whilst we recognise that each scheme will result in different levels of energy efficiency, and consequent offsetting liability, this exercise has sought to acknowledge that these contributions need to be accounted for throughout the feasibility process, and that an associated allowance should be made. Where allowance is not made from feasibility stage, applicants can be left with substantial unexpected financial contributions, which can reach millions of pounds in some cases, following the granting of planning permission.



### A BENCHMARKED CARBON OFFSET ALLOWANCE

We have researched recently permitted schemes which are subject to the London Plan’s £95 per tonne offset and divided the agreed contribution by the approved proposed Gross Internal Area (GIA). Overall, this suggests an indicative carbon offset allowance of between **£15psm and £25psm on proposed GIA**.

Each building is unique (distinguishing features including locality and subsequent Local Planning Authority’s policy, building height, energy performance, plant equipment and heritage considerations) and the contributions will vary; to give an accurate calculation, a detailed energy modelling exercise needs to be carried out by the design team to understand a site’s potential carbon contribution. However, it is still useful to include a benchmarked amount for incorporation into development appraisals at the outset to aid feasibility studies.

**We do not advocate or suggest that this approach replaces specialist estimates from energy consultants. Instead, it is intended to provide an early indication of potential costs to ensure the ‘cost of carbon’ is considered from the outset. We strongly recommend that specialist energy consultants are engaged at the earliest opportunity and as the design progresses.**



### INCREASING COST OF CARBON

Although most London boroughs use the GLA's price for carbon offsetting, different Local Planning Authorities may, and indeed are, bringing in higher levels of carbon offset contributions, for which this benchmark has not allowed. The current diverging levels from the London Plan are listed below:

- Westminster City Council at £300/tonne
- London Borough of Islington at £920/tonne

Our figures are based on the GLA's £95 per tonne and 2013 Part L baseline, and the associated costs will change where this rate and baseline are not used. This clearly creates a risk that the cost of compliance could significantly increase. We will review and update this research on a regular basis to take account of any further planned or proposed changes to policy, building regulations or the price of carbon, including the current shift to calculating carbon reductions against a 2021 Part L baseline.

#### **Disclaimer & Copyright**

Gerald Eve's Planning Update is a short summary and is not intended to be definitive advice. No responsibility can be accepted for loss or damage caused by any reliance on it.

© All rights reserved. The reproduction of the whole or part of this publication is strictly prohibited without permission from Gerald Eve LLP.